

Mississippi Office of the State Auditor

Shad White, State Auditor

[Report Fraud](#)

Audit of DHS Reveals Millions Wasted

May 4, 2020

Auditor's Office Questions Over \$90 Million in Spending of Welfare Grants and Other Funds

JACKSON – Millions of dollars of grants from the Mississippi Department of Human Services (DHS) were misspent, converted to personal use, spent on family members and friends of staffers and grantees, or wasted according to an audit released today by State Auditor Shad White.

“This completed audit of DHS for the previous year shows the most egregious misspending my staff have seen in their careers at the Office of the State Auditor,” said White. “When you read this one-hundred-plus page audit, you will see that, if there was a way to misspend money, it seems DHS leadership or their grantees thought of it and tried it.”

The audit of DHS came as a part of the Office of the State Auditor’s yearly Single Audit of federal money flowing through state agencies.

The audit of DHS showed massive sums were funneled to grantees like the Mississippi Community Education Center (MCEC) and the Family Resource Center of North Mississippi (FRC), two non-profits. Those grantees were given over \$98 million in DHS grants over the last three years, mostly from the program Temporary Assistance for Needy Families (TANF).

The audit’s formal finding is that over \$94 million of that grant money has been “questioned,” meaning auditors either saw clear misspending or could not verify the money had been lawfully spent. Examples of questioned spending included:

- MCEC and FRC used TANF money to hire lobbyists with TANF money, which is unallowable, often with no paperwork describing the work the lobbyists were hired to do.
- MCEC awarded contracts to and hired former DHS Director John Davis’s family members, sometimes paying them up front in lump sums.
- MCEC and FRC paid large sums to wrestlers Ted Dibiase, Ted Dibiase, Jr., and Brett Dibiase for work that was not performed, for unreasonable travel costs, or with little proof the programs helped the needy.
- MCEC and FRC used TANF money to fund religious concerts with no proof they benefitted the needy.
- MCEC made multiple donations with TANF money—like donations to the American Heart Association, the Mississippi Highway Patrol, booster clubs, pageants, universities—and provided no proof the donations were used to help the needy. FRC also made unallowable donations.

Exhibit B

Among the grantees, MCEC was particularly dependent on TANF funding and engaged in extensive misspending. From 2016 to 2019, MCEC was given over \$60 million in grants from DHS, while raising just under \$1.6 million from other sources. Examples of questioned spending at MCEC included:

- MCEC paid Victory Sports Foundation TANF money for fitness programs for Mississippi legislators and other elected officials/staffers at no charge.
- MCEC purchased three vehicles with grant funds, each for over \$50,000, for Nancy New (Director of MCEC), Zach New, and Jess New. MCEC also paid salaries, cell phone bills, and other costs for a variety of members of the New family.
- MCEC made many unallowable sports-related expenditures—like sponsoring a college baseball tournament—for services that could not be proven to benefit the needy. Some sports-related spending was for services that were not actually performed.
- MCEC transferred over \$6 million to a private school and organization owned by Nancy New and also purchased curricula and supplies with TANF funds for the school.
- MCEC paid a speeding ticket for Nancy New with TANF funds.
- MCEC issued a \$3,000 check to the bookkeeper of MCEC with a handwritten note saying the payment was actually for John Davis.
- MCEC paid a variety of consultants, including Jess New, for no clear deliverables or where there was no proof the spending met TANF requirements.
- Zach New took a loan out against his MCEC retirement plan and repaid the loan with TANF money.
- MCEC paid for extensive unallowable advertising, like using TANF money to advertise at the NCAA basketball tournament and a college football bowl game. TANF money was also used to purchase tickets to a college football game.
- MCEC paid excessive rent well above market value to a holding company owned by Zach and Nancy New. Sometimes the rent paid for spaces that were not used for TANF-related purposes.

The unallowable spending was achieved through a variety improper activities, like: DHS Director Davis limiting monitoring of subgrantees; forged documents; subgrantees providing summaries of expenditures that did not match actual expenditures; a limited or nonexistent RFP process for selecting subgrantees; fraudulent accounting entries that misstate actual payees; a failure by DHS staff to report obviously improper transactions to law enforcement; and others.

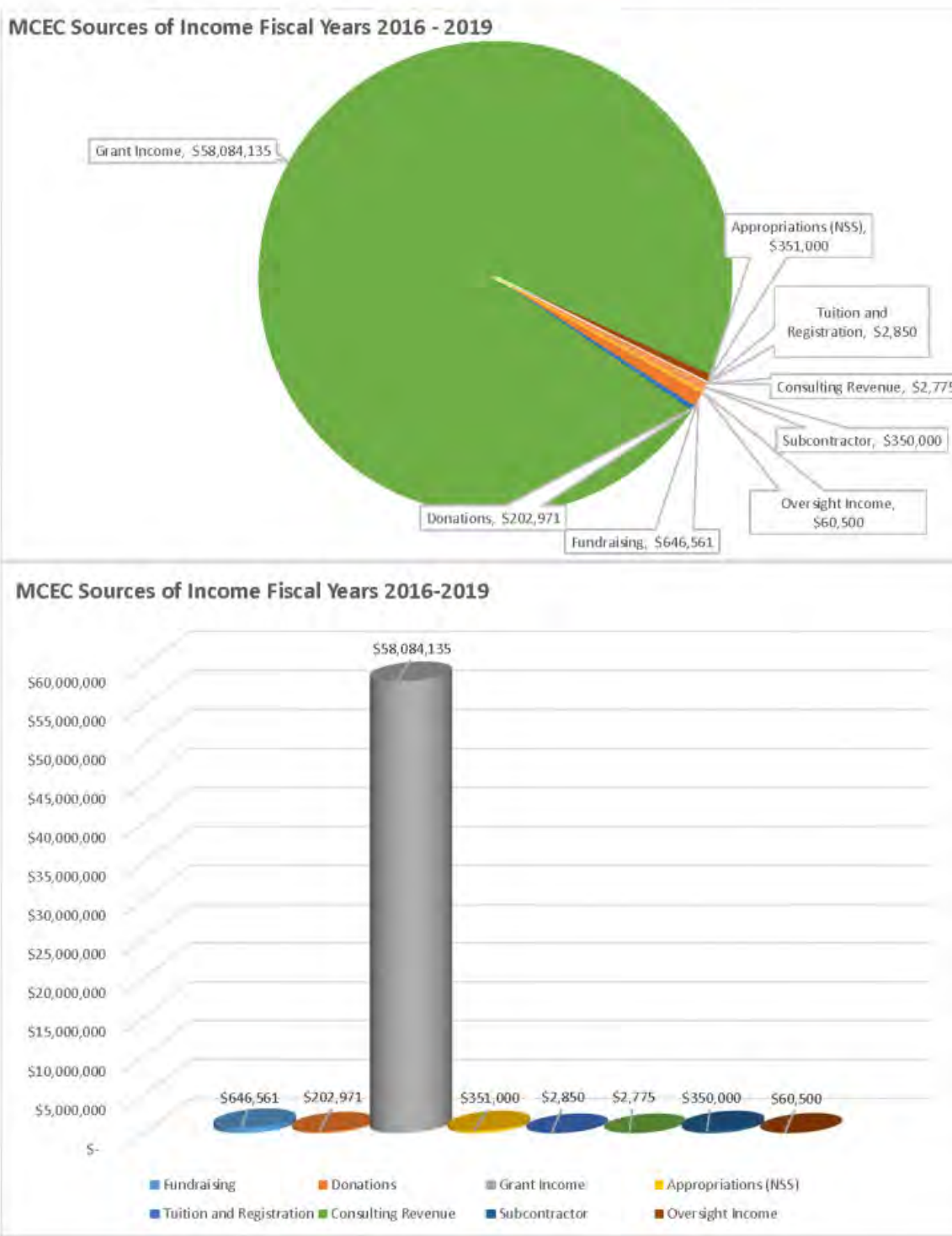
Auditors have recommended current DHS leadership take steps to remedy these problems. “DHS staff should immediately move to seize any property that was purchased by grantees with taxpayer money, as that property belongs to the taxpayers,” said White. “That property does not belong to the Auditor’s office, so we cannot do this for them, but it should be marked as DHS property, and DHS should use their legal authority and move quickly to seize it.”

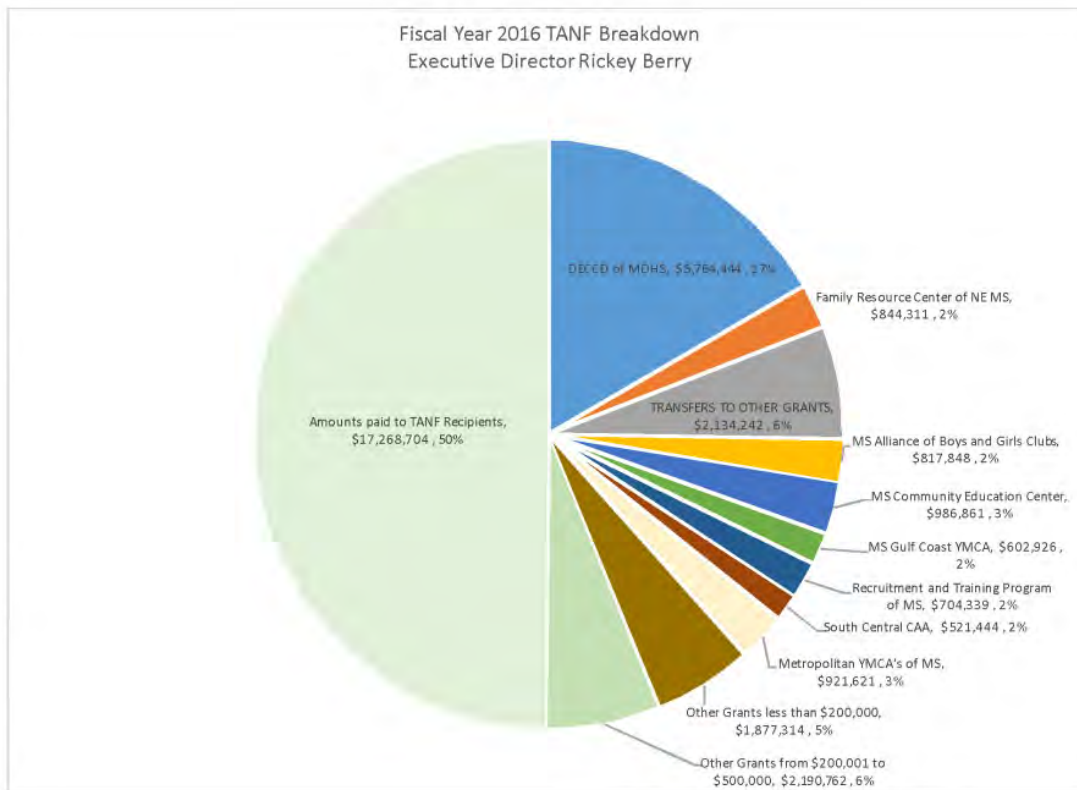
The audit also suggested DHS conduct an internal investigation into current and former DHS staff who may have played a role in the fraud.

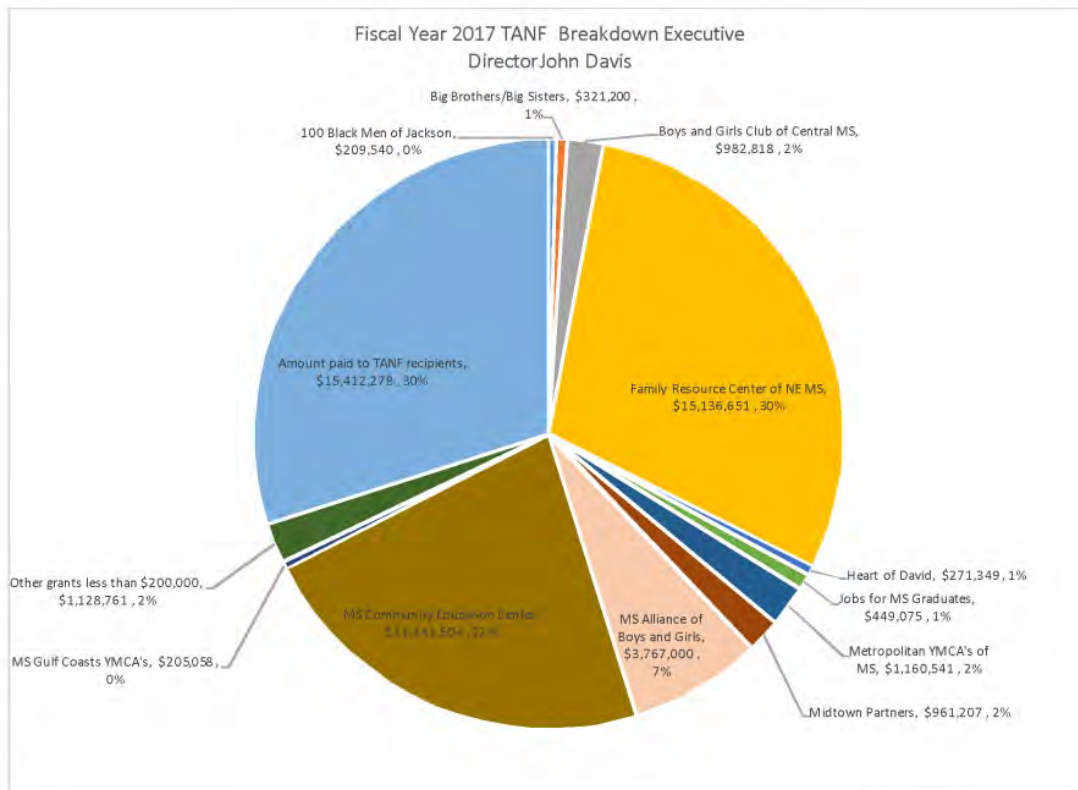
“Thank you to our team of professional auditors for their incredible work,” said White. “The doggedness and attention to detail shown by Stephanie Palmertree, Michael Torres, Jason Ashley, and their team of CPAs led to this critical report. Their work is the first step to restoring public trust in DHS.”

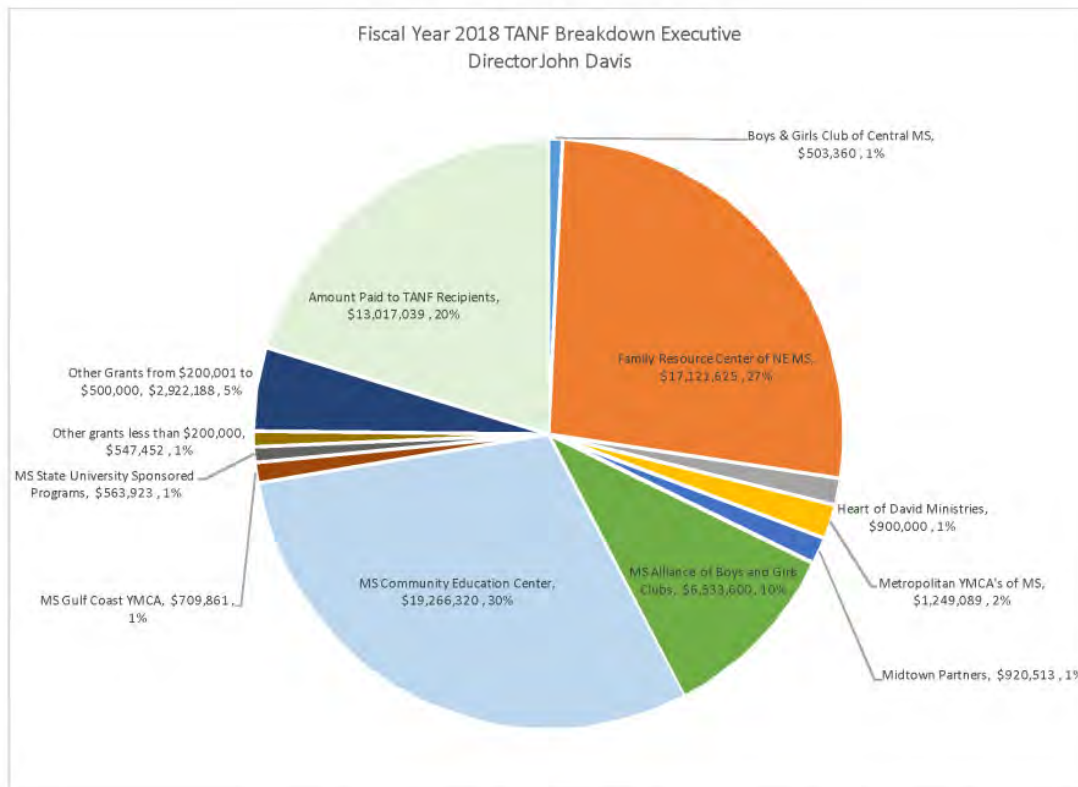
The Single Audit report is now forwarded to the federal government, who will determine the consequences for DHS. Those consequences could include cuts to future grants from the federal government or penalties.

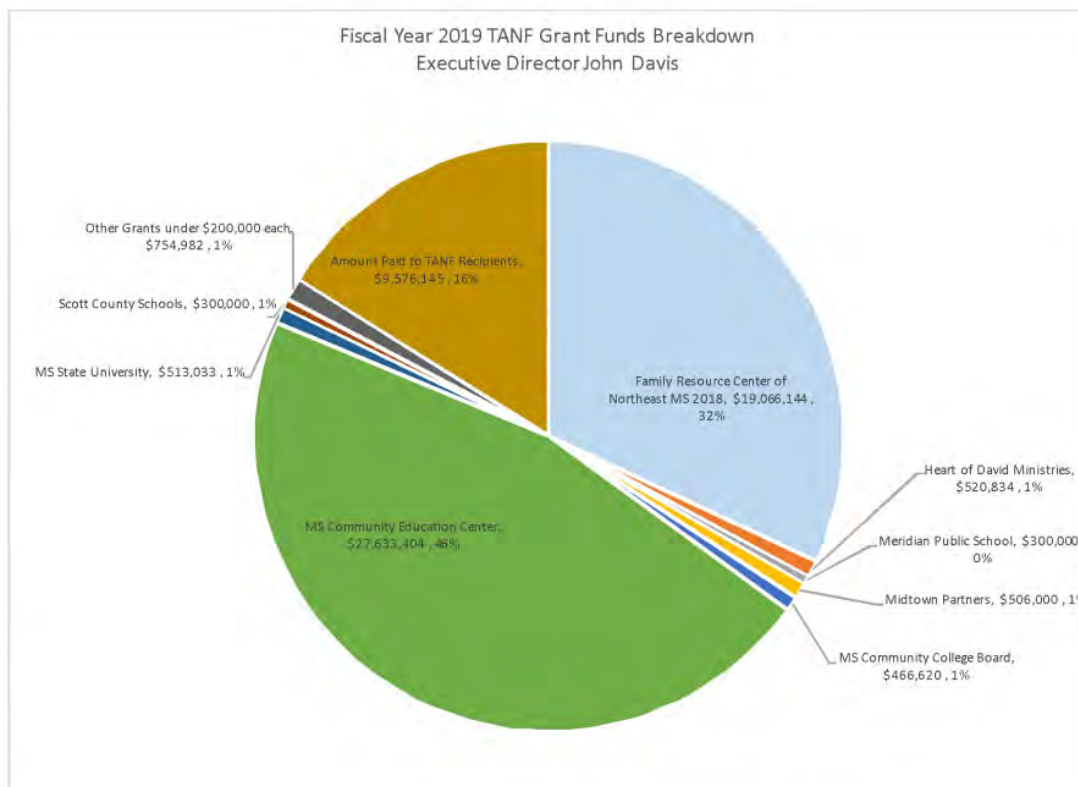
While this Single Audit report concluded the Auditor's office's audit of DHS, the criminal investigation of this matter by the Auditor's office and federal authorities continues. "This audit should be a wake-up call to everyone in government. The old way of doing things, where you do whatever your boss or a person who controls a lot of money tells you to do, or you ignore the law around how to spend money because you think no one is looking—those days are over," said White.

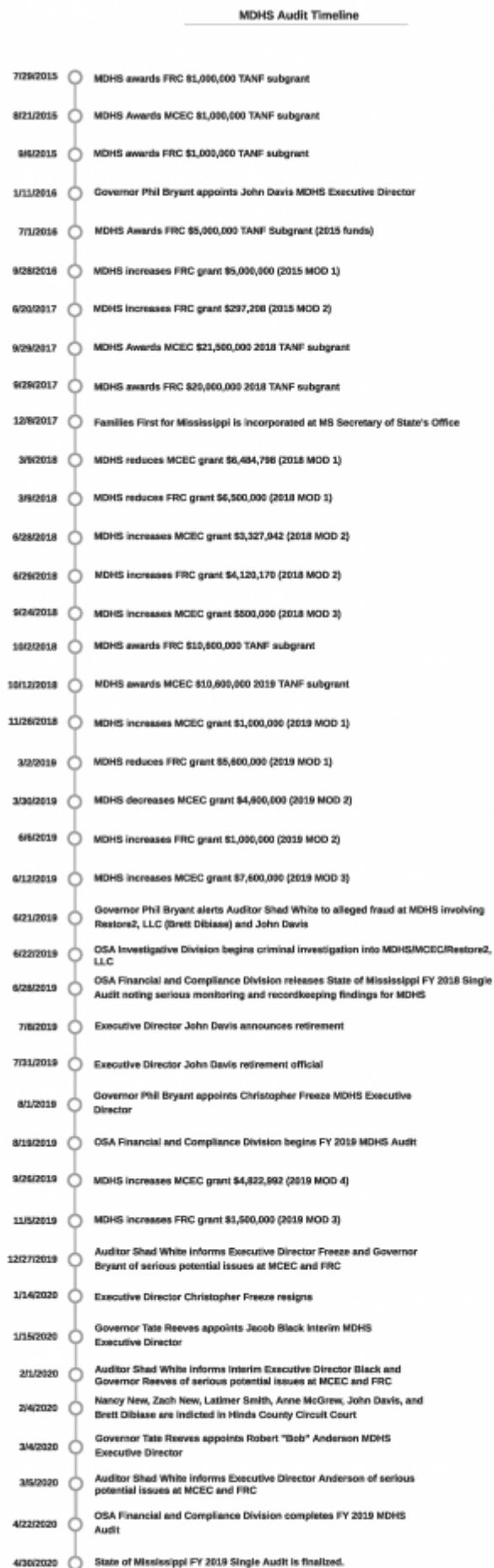




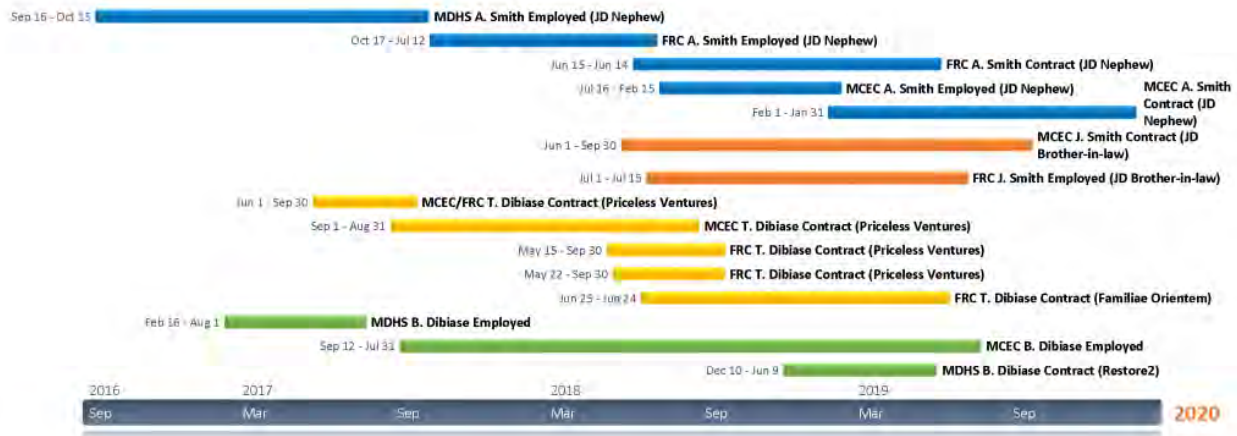








Contract Timeline for MDHS/MCEC/FRC Projects – Relatives and Parties of Interest FY 2016-2019



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